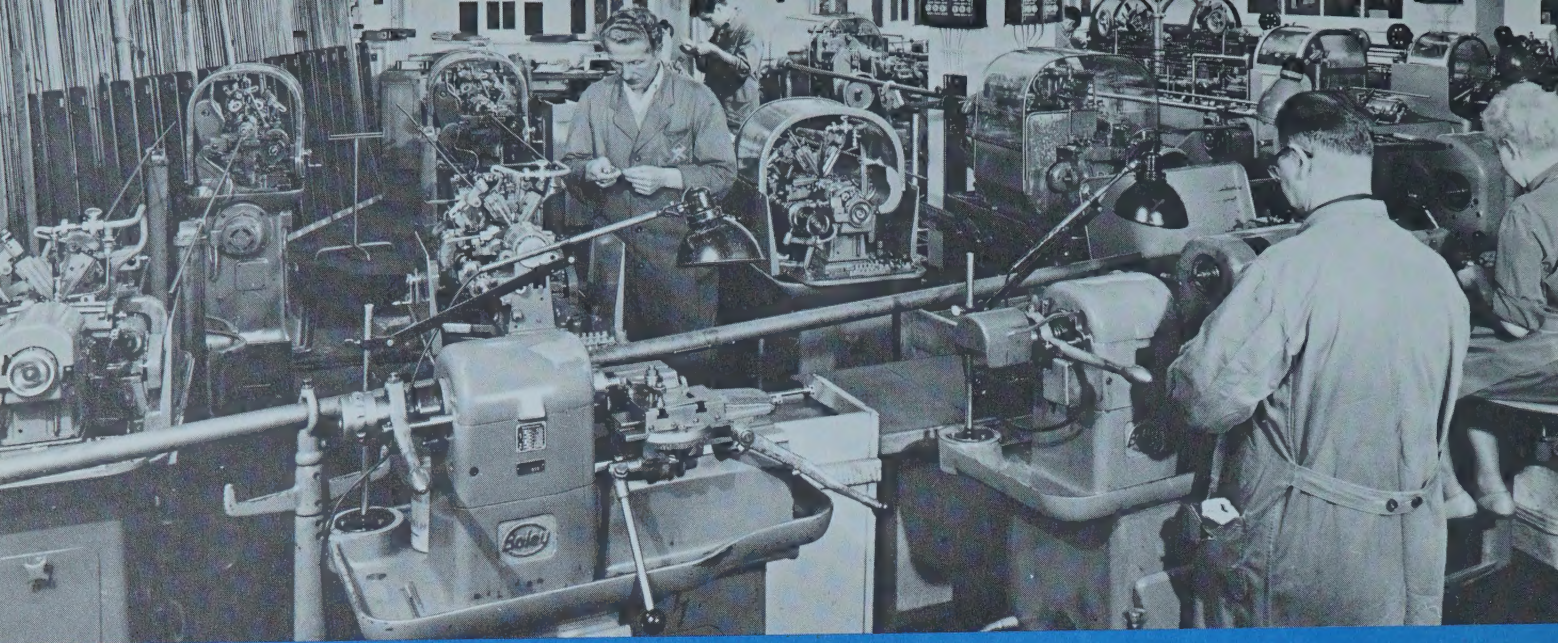


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COMMODORE BUSINESS MACHINES (CANADA) LIMITED • 1965 ANNUAL REPORT



The President's Message

To the Shareholders:

In order that you may gain a better understanding of the financial information presented in this report, it is essential to refer briefly to the events of June 1965, which seriously disrupted the whole pattern of our Company's operations and future plans.

With the collapse of Atlantic Acceptance Corp. Limited, not only did the Company's major source of short term funds disappear, but in addition, because of unjust publicity and rumors linking our Company unfavorably with other companies which had failed or were about to do so in the wake of the Atlantic Acceptance collapse, all attempts by the Company to arrange alternative sources of financing to implement its policies and commitments were frustrated.

For the past few years, the Company's rapid growth and diversification had been financed to a large extent by short term loans from finance companies which were repaid, from time to time, from the proceeds of public and privately placed long term financing. Short term funds were generally available to the Company for expansion and diversification.

With this in mind, the Company contracted in April 1965 to purchase Willson Stationery and Envelopes Limited with short term funds. Prior to making this commitment, the Company had satisfied itself that long term re-financing would be available within six months after acquisition. By June 1965 the Company was irrevocably committed to this purchase and notwithstanding the adverse conditions the transaction was completed. Failure to do so would have resulted in the immediate loss to the Company of its deposit of \$100,000. Exhaustive efforts were then made to re-finance this project on a long term basis as originally planned, but under the conditions prevailing at the time our efforts proved futile. Because of the pressing and urgent need to repay the short term funds borrowed to acquire Willson, a decision was made to sell that subsidiary to avoid seriously jeopardizing the financial position of Commodore. Though in the final analysis a loss was sustained, we would point out that the sale price was in excess of the purchase price, the loss being attributable to expenses of acquisition and sale.

In view of the events of June 1965, our past policies had to be reviewed and drastic changes made to direct the Company on a more conservative path. It was decided that the Company would concentrate on products which it had been manufacturing successfully and profitably, and on those lines of merchandise most profitable to distribute. This resulted in the termination of low profit activities, the liquidation of some assets no longer required in our operations, and the write-down of slower moving inventory in an effort to dispose of it more rapidly, thereby providing the Company with additional operating funds. These decisions adversely affected our statement of operations presented in this report.

As a result of expanded operations in the past fiscal year we experienced an increase in operating and financial expenses. The consolidation this year of Willy Feiler Zahl and Rechenwerke GmbH and Pearlsound Distributors Limited into this statement of operations accounts for the major portion of the increase in the figures presented, and makes a true comparison with last year's statement difficult. The greatest portion of the loss sustained this year resulted from non-recurring write-offs and allowances for loans, notes, and receivables, which appear to be uncollectible as a result of the same events in June 1965.

The first few months of our current fiscal year have been difficult ones. The Directors and management of your Company have had to fight a constant battle against insidious rumors which undermined the reputation of the Company. Fortunately we had some strong support and despite many difficulties the basic Commodore organization has remained intact. In fact, our sales are presently higher than sales for the same period last year, and it is a source of great satisfaction to have the continued support of our many dealers who are purchasing our products in ever-increasing quantities.

During the past year we have invested more than \$600,000 in new machinery and plant equipment to further increase our output of adding machines, and to complete the set-up of the office furniture manufacturing facilities. The first deliveries of this furniture were made in the Spring of 1965. The Company was

Berlin, Germany: Plant

Toronto, Ontario: Office and Plant

Shannon, Ireland: Plant

also committed to substantial capital expenditures to set up the production and assembly of our new electric portable typewriter.

We are indeed pleased to advise you that progress in our plants has continued unimpaired and all our commitments and schedules have been met. Our Berlin plant is operating at full capacity and our Offenburg plant is now entering a new phase of production. Until recently this plant concentrated on production of parts for our other plants, but has now started to manufacture complete machines including a new sterling/decimal adding machine developed by us. The United Kingdom and other sterling currency countries will provide a vast market for this new model. Set-backs have been experienced at the Shannon plant which have resulted in an operating loss in the fiscal year 1965. With the start of the sterling/decimal model at Offenburg, sterling model adding machine production in Shannon has been discontinued and a total switch-over has been made to the simpler production of decimal hand adding

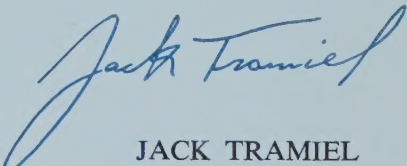
machines. This simplification of operations should result in a substantial profit in the current fiscal year.

Though the operations of the Company are moving along as scheduled, the financial problems are yet to be surmounted. Recently, short term funds were obtained to help meet some of the more pressing commitments but long term financing will have to be found.

In the wake of the Atlantic Acceptance collapse, claims have been made against the Company for substantial sums of money. All of these claims are being vigorously contested.

In conclusion, while it is true that there are serious problems yet to be resolved, it is also true that the Company has made some progress in overcoming the difficulties outlined at the beginning of this report. Management is striving to reorganize the financial structure of the Company and it is hoped that with the sales of profitable products with proven acceptance and the elimination of low profit activities, we can look forward to the future with confidence.

Respectfully submitted,

A handwritten signature in blue ink, reading "Jack Tramiel". The signature is fluid and cursive, with a large, sweeping initial "J".

JACK TRAMIEL
President.

January 12, 1966

COMMODORE BUSINESS MACHINES (CANADA) LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED EARNINGS
FOR THE YEAR ENDED JUNE 30, 1965

(With Comparative Figures for 1964)

Statement

	1965*	1964
Revenues	\$7,726,531	\$5,088,449
Gross Profit	<u>\$1,528,556</u>	<u>\$1,592,541</u>
Expenditures — Operations		
Selling Expenses	779,966	681,565
Managing Directors' Salaries	47,792	35,944
Directors' Fees	2,150	2,600
General and Administrative Expenses	549,279	194,949
Exchange Adjustments	8,261	1,073
	<u>\$1,387,448</u>	<u>\$ 916,131</u>
Net Profit from Operations before Financial Expenses, Depreciation and Income Taxes	<u>\$ 114,108</u>	<u>\$ 676,410</u>
Financial Expenses and Depreciation		
Interest on Long Term Notes	27,453	36,502
Interest on Debentures and Subordinated Notes	187,073	116,390
Amortization of Cost of Issue of Debentures and Notes	12,165	8,417
Other Financial Expenses	147,464	135,972
Depreciation Charges	314,492	51,718
	<u>\$ 688,647</u>	<u>\$ 348,999</u>
Net Profit (Loss) from Operations before Income Taxes	(547,539)	327,411
Deduct — Provision for Income Taxes — 1964	—	151,986
— Estimated Income Tax Refunds — 1965	138,099	—
	<u>(409,440)</u>	<u>175,425</u>
Add — Non-Recurring Profit — 1964	—	15,000
— Non-Recurring Losses and Adjustments Relating to Prior Years (Net) 1965	(642,274)	—
Net Profit (Loss)	<u>(\$1,051,714)</u>	<u>\$ 190,425</u>

*Includes sales and expenses of Willy Feiler Zahl und Rechenwerke G.M.B.H. and Pearsound Distributors Limited which were not included in the consolidation for 1964.

Balance Sheet

COMMODORE BUSINESS M
AND ITS WHOLLY-OWNED

CONSOLIDATED
AS AT JU
(With Comparati

ASSETS

Current Assets

	1965	1964
Cash on Hand and on Deposit	\$ 95,138	\$225,763
Time Deposit	—	408,307
Accounts and Notes Receivable	1,424,931	1,594,174
Less — Provision for Doubtful Accounts	(76,983)	(29,886)
Discounts, Rebates and Deposits Receivable	52,029	64,824
Loans Receivable — Shareholders	—	9,620
Deposits and Loans Receivable — Others	233,895	109,434
Less — Provision for Possible Loss	(178,729)	—
Marketable Securities (At Lower of Cost or Market)	4,671	4,755
Estimated Income Tax Refunds Receivable	219,093	—
Prepaid Expenses and Factory Supplies	19,167	17,878
Merchandise Inventory (At Lower of Cost or Market)	2,336,461	1,932,676
	<u>\$4,129,673</u>	<u>\$4,337,545</u>

Investments and Advances

Investments in Other Corporations (2)	470,700	1,766,177
Advances to Other Corporations (3)	611,019	330,784
Mortgage Receivable — 7%, Due May 19, 1968	82,500	—
	<u>\$1,164,219</u>	<u>\$2,096,961</u>

Fixed Assets

Land — Cost	34,801	39,590
— Excess of Appraised Value Over Cost —		
Appraised April 23, 1965 by M. Goldman Real Estate Limited	63,161	—
Buildings — Cost	343,358	71,674
Tools, Machinery and Equipment — Cost	1,589,897	271,612
Dies and Moulds — Cost, Less Amortization	82,191	13,636
Automotive Equipment — Cost	31,538	33,320
Leasehold Improvements — Cost	12,425	28,822
	<u>2,157,371</u>	<u>458,654</u>
Less — Accumulated Depreciation	609,052	205,628
	<u>\$1,548,319</u>	<u>\$ 253,026</u>

Other Assets

Franchise and Manufacturing Rights	31,000	31,000
Organization Expense	17,178	6,593
Deferred Product Research and Development Expense (4)	194,533	33,510
Deferred Market Development Expense	—	47,269
Excess of cost of Investment in Subsidiaries (5a)	464,802	—
Goodwill (5b)	581,099	206,140
Commissions and Expenses on Sale of:		
Capital Stock	142,049	89,549
Debentures and Notes (Less Amortization)	114,494	99,409
	<u>\$1,545,155</u>	<u>\$ 513,470</u>
Total Assets	<u><u>\$8,387,366</u></u>	<u><u>\$7,201,002</u></u>

See Notes to the Consolidated Balance Sheet, which form an integral part of the above and should be read in conjunction therewith.

CHINES (CANADA) LIMITED
SUBSIDIARY COMPANIES(1)

BALANCE SHEET
30, 1965
(figures for 1964)

LIABILITIES

Current Liabilities

	1965	1964
Accounts and Notes Payable and Payments in Transit	\$2,270,978	\$1,464,045
Bank Loans (6)	663,011	439,563
Sales Taxes and Employees' Deductions Payable	17,763	10,019
Provision for Income Taxes Payable	—	169,910
Advances from Finance Companies	—	961,996
Loans Payable — Shareholders	23,404	—
Loans Payable — Others	55,803	—
Mortgages Payable — Current Portion	1,200	1,200
Long Term Notes Payable — Current Portion (11)	—	86,006
	<u>\$3,032,159</u>	<u>\$3,132,739</u>

Long Term Liabilities (7)

Long Term Notes Payable (11)	—	283,819
Mortgages Payable	84,900	116,100
7% Convertible Sinking Fund Debentures Series "A"	738,500	923,000
7% Convertible Sinking Fund Debentures Series "B"	540,000	600,000
7% Convertible Sinking Fund Debentures Series "C"	600,000	600,000
6¾% Subordinated Notes Series "A"	1,000,000	—
	<u>\$2,963,400</u>	<u>\$5,522,919</u>

Other Liabilities

Deferred Corporate and Municipal Income Taxes	97,551	—
Due to Employees' Benefit Fund	77,764	—
Reserve for Employee's Pension Plan	54,120	—
	<u>\$ 229,435</u>	<u>—</u>
Total Liabilities	<u><u>\$6,224,994</u></u>	<u><u>\$5,655,658</u></u>

SHAREHOLDERS' EQUITY

Capital Stock

Authorized (8) (10)		
3,000,000 Common Shares Without Par Value		
200,000 Preference Shares With a Par Value of \$10.00 Each		
Issued (9)		
989,181 5/20 Common Shares Without Par Value	1,263,892	829,382
100,000 Preference Shares @ \$10.00 Par Value (12)	1,000,000	—
	<u>2,263,892</u>	<u>829,382</u>

Surplus

Earned Surplus (Deficit)	(442,993)	437,650
Appraisal Surplus — Land	63,161	—
Contributed Surplus	245,168	245,168
Capital Surplus	33,144	33,144
	<u>(101,520)</u>	<u>33,144</u>
Total Shareholders' Equity	<u><u>\$2,162,372</u></u>	<u><u>\$1,545,344</u></u>
Total Liabilities and Shareholders' Equity	<u><u>\$8,387,366</u></u>	<u><u>\$7,201,002</u></u>

Contingent Liabilities: \$303,915 (11)

Approved on Behalf of the Board of Directors:

JACK TRAMIEL, Director MANFRED KAPP, Director

Notes to the Consolidated Balance Sheet as at June 30, 1965

- (1) The accounts of the following wholly-owned subsidiaries are included in the consolidated statements:

Associated Tool and Manufacturing Company Limited and its wholly-owned subsidiary, Shelburne Tool Company Limited—Toronto, Ontario
 Belpree Company Limited—Toronto, Ontario
 Commodore Drycopy, Inc.—Freeport, N.Y.
 Commodore Drycopy Limited—Toronto, Ontario
 Commodore Business Machines, Inc.—Freeport, N.Y.
 Fenix Manufacturing Limited—Toronto, Ontario
 Humber Typewriters and Business Equipment Limited—Toronto, Ontario
 Pearlsound Distributors Limited—Toronto, Ontario
 Willy Feiler Zahl und Rechenwerke GMBH.—West Germany

For the purposes of consolidation, the current assets and all liabilities of the foreign subsidiaries have been converted at the rate of exchange prevailing at the balance sheet date, and expenses and revenues at the average rate of exchange for the year. The fixed and other assets have been converted at the rate of exchange prevailing at the time of acquisition.

- (2) Investments in other corporations are as follows: % Held Amount

(a) Commodore Industries Limited—Republic of Ireland..... 100% \$302,460

This represents the acquisition of all the authorized and issued capital stock of the above-named company. The accounts of this company have not been consolidated because audited statements are not yet available for the period ended June 30, 1965. The delay is attributable to negotiations pending with the Republic of Ireland regarding grants to be received.

(b) International Typewriter Corporation—Los Angeles, California..... 50% 28,378

The interest in this company, which was acquired in 1964 was sold on October 29, 1965 for \$28,378.

(c) Willson Stationers and Envelopes Limited—Winnipeg, Manitoba..... 99.744% 139,862

This company was acquired on June 23, 1965, for a total cost, including expenses, of..... \$3,084,353
 Less—Short term loan arranged to finance this purchase.... 2,944,491

Net Investment..... \$ 139,862

This company was sold subsequent to balance sheet date. As a result of the sale, a loss of \$117,322 was sustained.

TOTAL..... \$470,700

- (3) Advances to other corporations are as follows:

	1965	1964
Commodore Industries Limited—Republic of Ireland.....	\$611,019	\$212,733
Other Foreign Corporations.....	—	118,051
TOTAL.....	\$611,019	\$330,784

- (4) Deferred Product Research and Development Expense:

	1965	1964
Belpree Company Limited—Stair Climbing Wheel Chair.....	\$ 37,592	\$ 33,510
Willy Feiler Zahl und Rechenwerke GMBH.—Electric portable typewriter and various other new products.....	156,941	—
TOTAL.....	\$194,533	\$ 33,510

- (5) (a) Excess of Cost of Investment in Subsidiaries:

	1965	1964
Where purchase price of the Subsidiaries exceeded the net book value thereof.....	\$464,802	\$206,140

- (b) Goodwill:

	1965	1964
This represents the estimated value of tools and dies acquired from a predecessor company by Willy Feiler Zahl und Rechenwerke GMBH.....	\$581,099	—

- (6) Bank Loans are Secured as follows:

—General assignment of accounts receivable by Associated Tool and Manufacturing Company Limited.....	\$ 6,000
—General assignment of accounts receivable by Humber Typewriters and Business Equipment Limited.....	25,000
—Floating Charge Debenture issued by Belpree Company Limited.....	120,000
—Property at Offenberg, West Germany, subject to a First Mortgage Contract which secures a line of credit up to \$270,000.....	192,011
—Shares of Associated Tool and Manufacturing Company Limited and Belpree Company Limited.....	320,000
TOTAL.....	\$663,011

- (7) Long Term Liabilities:

- (a) Mortgages Payable:

(i) \$70,000—Interest @ 7½%—Collaterally Secured by a first charge against land and buildings owned by a Subsidiary. The balance of principal is due on June 1, 1970.

(ii) \$16,100—Interest @ 6%—Collaterally Secured by a charge against the chattels of a Subsidiary. The final payment is due on March 1, 1967.

- (b) 7% Convertible Sinking Fund Debentures:

Series	Dated	Maturity Date	Authorized	Issued	Redeemed or Converted During Year	Outstanding	Next Sinking Fund Payment Due
"A"	Nov. 1, 1962	Nov. 1, 1974	\$1,000,000	\$1,000,000	\$184,500	\$738,500	Nov. 1, 1966
"B"	Apr. 15, 1963	May 1, 1975	600,000	600,000	60,000	540,000	May 1, 1967
"C"	Apr. 1, 1964	Apr. 1, 1976	1,000,000	600,000	—	600,000	Apr. 1, 1967

These 7% debentures have been issued pursuant to a trust indenture and supplementary trust indentures made between the Company and Montreal Trust Company. These debentures are secured by a floating charge on all property and assets of the Company, subject only to secured bank and finance company loans made in the ordinary course of business, not to exceed \$1,000,000.00 in the aggregate principal amount.

The trust indentures pursuant to which the 7% convertible sinking fund debentures series "A", "B", and "C" are issued, contain provisions restricting the payment of dividends by the Company and restricting the issue of any additional debentures.

(c) 6¾% Subordinated Notes Series "A":

Series "A"	Dated Dec. 1, 1964	Matures Dec. 1, 1969	Issued \$1,000,000	Redeemed —	Outstanding \$1,000,000
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At a meeting of the Board of Directors of the Company held on December 21, 1964, the creation of unsecured subordinated notes was authorized and the Company then authorized for immediate issue, \$1,000,000 principal amount of 6¾% subordinated notes, first series. These subordinated notes have been issued pursuant to a trust indenture made between the Company and Montreal Trust Company.

(8) Capital Stock—Authorized:

By resolution of the Board of Directors, dated October 7, 1964, and subsequently confirmed by the Shareholders of the Company at a special general meeting held on November 18, 1964, application for Supplementary Letters Patent was made to the Lieutenant Governor of the Province of Ontario for the following purposes:

(a) To increase the authorized capital of the Company from 2,000,000 Common Shares without par value to 3,000,000 Common Shares without par value; and

(b) To create 200,000 Preference Shares with a par value of \$10.00 each, issuable in series, the first series of which designated "Series A Preference Shares" consists of 100,000 6% Cumulative, Redeemable, Convertible Preference Shares, Series A, with a par value of \$10.00 each.

(9) Shares issued during the year ended June 30, 1965 are as follows:

Common Shares:		Shares
Balance—as at July 1, 1964.....	\$ 829,382	835,550
Add—Exercise of Employees' Stock Options.....	113,594	41,875
—Exercise of Series "A" Warrants.....	2,250	500
—Conversion of Series "A" Debentures.....	184,500	46,125
—Conversion of Series "B" Debentures.....	60,000	12,000
—Issue of Shares as Consideration for the Purchase of 100% of the Outstanding Stock of "Pearl-sound Distributors Limited" on April 7, 1965.....	70,000	7,500
—Stock Dividend —1.....	4,166	45,631 5/20
Balance—as at June 30, 1965.....	<u>\$1,263,892</u>	<u>989,181 5/20</u>

Preference Shares:		
Balance—as at July 1, 1964.....	Nil	Nil
Add—Sale of 100,000 Shares on December 29, 1964 for cash.....	\$1,000,000	100,000
Balance—as at June 30, 1965.....	<u>\$1,000,000</u>	<u>100,000</u>

(10) The following shares have been reserved:

(a) For the exercise of share purchase warrants which entitle the holders thereof to purchase fully paid, non-assessable common shares at the exercise price on or before the dates at which the warrants become void:—

Series	Void After	Warrants Issued	Exercise Price	Warrants Outstanding	Shares Reserved
"A"	Nov. 1, 1974	200,000	\$4.50	199,200	
"B"	May 1, 1975	120,000	5.50	120,000	
"C"	Apr. 1, 1976	120,000	5.50	120,000	439,200 shs.

(b) For the conversion privilege attached to the 7% convertible sinking fund debentures, wherein the holders thereof may convert the said debentures into fully paid and non-assessable common shares at the conversion price on or before the expiry date for the conversion privilege:—

Series	Expiry Date	Debentures Outstanding	Conversion Price	Shares Reserved
"A"	Oct. 31, 1974	738,500	\$4.00	184,625
"B"	Apr. 30, 1975	540,000	5.00	108,000
"C"	Mar. 31, 1976	600,000	5.00	120,000
				412,625 shs.

(c) For options granted to employees to purchase fully paid and non-assessable common shares:—
At \$4.05 Per Share.....

18,125 shs.

(d) For the conversion privilege attached to the 6% preference shares, which entitles the holders thereof to convert each preference share held into 1½ fully paid and non-assessable common shares of the Company. The rate of conversion changes on April 2, 1967. The conversion privilege expires on April 1, 1970.....

133,333⅓ shs.

SHARES RESERVED.....1,003,283⅓ shs.

(11) The Company and its wholly-owned, consolidated subsidiaries are contingently liable for the following items:

(a) Residual balances of long term notes payable were applied against a deposit made with a finance company. Since the company with which these transactions took place is a member of the Atlantic Acceptance Group, it is not clear as to what litigation, if any, may result in connection with this transaction. Opinion of legal counsel has been requested in this matter. Should this contingency materialize, the claims against the finance company will be increased by a like amount.....

\$292,702

(b) Letters of credit outstanding and not due, for merchandise not received as at the balance sheet date.....

11,213

TOTAL.....\$303,915

(12) Dividends in arrears on Preference Shares..... \$ 30,000

COMMODORE BUSINESS MACHINES (CANADA) LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

STATEMENTS OF CONSOLIDATED SURPLUS
FOR THE YEAR ENDED JUNE 30, 1965

(With Comparative Figures for 1964)

	1965	1964
EARNED SURPLUS (DEFICIT)		
Surplus — as at July 1 (Opening)	\$ 437,650	\$ 257,573
Add — Surplus, Willy Feiler Zahl Und Rechenwerke, Not previously Consolidated	177,617	—
— Consolidated Net Profit	—	190,425
— Income Tax Adjustments Re Prior Years	2,841	(4,618)
	<u>\$ 618,108</u>	<u>\$ 443,380</u>
Deduct — Consolidated Net Loss	1,051,714	—
— Managing Officers' Life Insurance Premiums	5,221	5,730
— Stock Dividend #1 — On Common Shares	4,166	—
	<u>\$1,061,101</u>	<u>\$ 5,730</u>
Surplus (Deficit) — as at June 30	<u><u>(\$ 442,993)</u></u>	<u><u>\$ 437,650</u></u>
CONTRIBUTED SURPLUS		
Balance — as at June 30	<u><u>\$ 245,168</u></u>	<u><u>\$ 245,168</u></u>
CAPITAL SURPLUS		
Balance — as at June 30	<u><u>\$ 33,144</u></u>	<u><u>\$ 33,144</u></u>
APPRAISAL SURPLUS		
Balance — as at July 1 (Opening)	—	—
Add — Excess of Appraised Value of Land Over Cost as Per Appraisal Made on April 23, 1965 by M. Goldman Real Estate Limited.	63,161	—
Balance — as at June 30	<u><u>\$ 63,161</u></u>	<u><u>\$ —</u></u>

Auditors' Report

To the Shareholders,
Commodore Business Machines (Canada) Limited,
Toronto, Ontario.

We have examined the consolidated balance sheet of Commodore Business Machines (Canada) Limited and its wholly-owned subsidiaries as at June 30, 1965 and the statement of consolidated earnings and the statements of consolidated surplus for the year ended on that date. In connection with the parent Company and its wholly-owned Canadian subsidiaries, our examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as we considered necessary in the circumstances.

The accounts of Willy Feiler Zahl und Rechenwerke GMBH. were examined by Arthur Andersen & Co. of West Germany, and are included in the consolidated statements on the basis of their reports.

The accounts of the two consolidated American subsidiaries were examined by Mr. Leon Davis, Certified Public Accountant, resident of New York and are included in the consolidated statements on the basis of his report qualified by the fact that "although I was not in attendance at the taking of physical inventory as at June 30, 1965, I have conducted an examination of the inventory records and other supporting evidence

and I have been satisfied that the inventory is reasonable and has been valued at the lower of cost or market, consistent with the method applied in previous years."

In our opinion, based on our examination and the reports of the auditors for the foreign subsidiaries, and according to the best of our information and explanations given to us, the accompanying consolidated balance sheet and related statements present fairly the financial position of the Company as at June 30, 1965 and the results of its operations for the year ended on that date in accordance with generally accepted accounting principles applied on a basis consistent, in all material respects, with that of the preceding year, except that for 1965, the accounts of Willy Feiler Zahl und Rechenwerke GMBH., have been included in the consolidation, a change with which we concur.

ROSE & HARRISON,
Chartered Accountants.
TORONTO, November 23, 1965

Directors	JACK TRAMIEL—TORONTO <i>President</i>
	MANFRED KAPP—TORONTO <i>Executive Vice-President</i>
	RENNIE A. GOODFELLOW—TORONTO <i>Partner, Barrett Goodfellow & Co.</i>
	CARL M. SOLOMON—TORONTO <i>Partner, Solomon, Singer & Solway</i>
Officers	JACK TRAMIEL <i>President</i>
	MANFRED KAPP <i>Secretary-Treasurer</i>
	THOMAS MCGOURTY <i>Vice-President, Manufacturing</i>
Head Office	946 Warden Avenue, Scarborough, Ontario
Operating Subsidiary Companies	Commodore Business Machines (Canada) Limited Humber Typewriters & Business Equipment Ltd.— Toronto, Ontario
	Belpree Co., Limited—Scarborough, Ontario
	Associated Tool & Manufacturing Ltd.—Downsview, Ontario
	Commodore Business Machines Inc.—Freeport, N.Y.
	Commodore Industries Limited—Shannon, Ireland
	Willy Feiler Zahl-und Rechenwerke GmbH— Berlin, West Germany
Transfer Agent and Registrar	Share Capital: Eastern & Chartered Trust Co.— Toronto & Montreal
	Debentures: Montreal Trust Co.— Toronto & Montreal
Auditors	Rose & Harrison, Chartered Accountants—Toronto
Counsel	Solomon, Singer & Solway—Toronto
Listing	Canadian Stock Exchange—Montreal



Commodore Business Machines (Canada) Limited

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*REPORT TO
SHAREHOLDERS
1965*

COMMODORE BUSINESS MACHINES (CANADA) LIMITED

Dear Shareholder:

In our letter of March 9th last you were advised that we were in the final stage of negotiating a sale of a major subsidiary. As has been outlined in the notice of meeting which accompanies this letter, the proposed sale is to be made to Litton Industries Inc. or its stated designee (Litton), pursuant to an agreement of sale (Litton Sale Agreement) completed a few days ago. The Litton Sale Agreement was entered into in keeping with the stated policy to reorganize Commodore to insure its ability to carry on unmolested by the immediate and pressing claims asserted against it. At the forthcoming Annual and Special General Meeting of Shareholders you will be asked to approve a special resolution passed by the Board of Directors authorizing the sale to Litton of Fenix Manufacturing Limited, a direct subsidiary of Commodore, which subsidiary owns, as its only asset, Willy Feiler Zaehl- und Rechenwerke G.m.b.H. (Willy Feiler), a German company, engaged in the manufacture and sale of adding machines. Willy Feiler was acquired approximately three years ago.

Because of the conditions prevailing since June of last year, normal lines of credit dried up. Management was seized with the responsibility of consolidating its financial position and stemming the investment of funds into the continued development and production of the electric portable typewriter. Demands by creditors, trade as well as others, made the sale of Willy Feiler and the settlement of claims against Commodore and its subsidiaries absolutely essential in the interests of the Company and its Shareholders. In short, it was necessary to reorganize and consolidate such that what would remain would be a strong foundation from which future profits could be earned. A realistic appraisal of the Company's financial condition was made, which reflected itself in the necessary inventory write-offs and receivable reserves being taken as shown in the financial statements for the year ended June 30th, 1965.

THE LITTON CONTRACT:

Commodore's total investment in the assets being sold is \$1,349,456, and since the acquisition of Willy Feiler and up to December 31, 1965, Commodore has consolidated \$980,000 as retained earnings of that subsidiary. The purchase price to be received by Commodore for the sale of the Feiler asset is \$3,658,000 of which all but \$250,000 is to be paid



Toronto, March 9th, 1966.

To the Shareholders:

Enclosed you will find the annual report of COMMODORE BUSINESS MACHINES (CANADA) LIMITED, for the fiscal year ended June 30th, 1965. Because the delivery of this report is long overdue, an explanation is in order.

In keeping with the management policy, outlined in the 1965 annual report, COMMODORE has been carrying on negotiations for the past six months for the sale of one of its subsidiary companies at a substantial profit. At the date of this writing, we are in the final stage of these negotiations.

If we are successful in concluding this transaction, on the basis presently under consideration, COMMODORE will have successfully resolved its financial problems, and will be able to continue actively in the manufacture and sale of office machines and equipment.

It must be realized that in transactions of this type, where negotiations might take place with different parties, secrecy is of the utmost importance, in order to achieve the best deal possible. Consequently, the Company had to remain silent until the negotiations had arrived at a stage where the transaction could not be jeopardized by publicity.

It was also felt all along that the agreement under negotiations could be concluded in a short time, thus enabling us to notify our Shareholders accordingly, and call at the same time the annual meeting. However, due to the delays normal in this type of transaction, this has not been possible. We have now thought it necessary to furnish you with the enclosed year end report without further delay.

We expect to call the annual meeting of Shareholders in the next 30 days, within which time it is hoped that the agreement of sale will have in fact been signed, so that it can be presented for your consideration and approval.

At the present time all the COMMODORE subsidiaries are operating in a satisfactory manner, and a full report for the six months period, ended December 31st, 1965, will be presented at the annual meeting.

Your further co-operation and consideration is respectfully requested.

Yours very truly

COMMODORE BUSINESS MACHINES (CANADA) LTD

Jack Tramiel
(President.)

on the closing of the transaction. This last mentioned sum is to be held by Litton for one year as a fund to which they can look to for reasons incident to the contract of sale.

In the sale contract, Commodore has reserved for itself the non-exclusive, non-transferrable right to manufacture and sell for a period of eight (8) years, adding machines and typewriters in the models and configurations presently manufactured, assembled, and/or developed by Willy Feiler and Commodore Industries Ltd. Subject to adequate provision being made to protect trade secrets, know-how and other confidential information, Commodore is permitted to have others manufacture and assemble these adding machines and typewriters on its behalf. Consistent with these provisions, Commodore has the right to make copies of all drawings, plans, specifications and other information relating to the manufacture and assembly of the adding machines and typewriters. The right to produce machines identical to those developed by Feiler is a most valuable asset. Of course, there is no restriction, whatever, against Commodore manufacturing adding machines and typewriters, or other products, different from those presently being manufactured.

The Litton contract is conditional on Commodore delivering to Litton on closing releases by certain holders of the Company's funded debt and preference shares, as well as by parties who have asserted claims against Commodore. To obtain these releases, Commodore has agreed to purchase for cancellation and/or to redeem all its outstanding debentures, subordinated notes, and preference shares, having an aggregate principal value of \$3,864,500 for approximately \$2,530,000 in cash, and 50,000 common shares of the Company. The Company has also arranged a settlement of all outstanding claims asserted against it and its subsidiaries for \$600,000. As part of the settlement, Commodore will receive all of the outstanding shares of a company which is one of Commodore's suppliers, and which has a value of approximately \$150,000.

All of the foregoing is reflected in the accompanying pro forma consolidated balance sheet. The cancellation of the funded debt and preference shares will result in an annual saving to the Company of \$260,000 in interest charges.

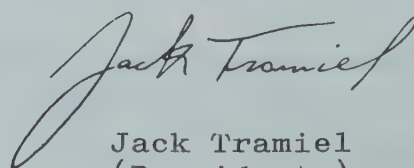
On the completion of the transactions contemplated, the current ratio of approximately two to one, will give the Company a net working capital of about \$1,600,000, compared to a current ratio, as at December

31st, 1965, of about four to three, and a net working capital position of about \$1,000,000. The pro forma net worth per common share is \$2.20 compared with \$.96, as at December 31st, 1965. However, comparison of net worth is difficult, because in determining the pro forma net worth, we have written down \$939,880 of intangible assets to \$1.00. This sum of \$939,880 was included in determining net worth as at December 31st, 1965. Because the Company intends to continue in the manufacture and sale of adding machines and typewriters, and has the right to do so, these very assets, which have been written down completely for consolidated statement purposes, will be the very assets which will enable Commodore to earn future profits.

Notwithstanding the sale of Feiler, we have sufficient inventory available to maintain our American operations intact. Commodore will continue to sell its drycopy machines in both the United States and Canada. It will also continue to operate its retail operations from the leased premises in Macy's and Bambergers'. The Canadian operation will remain intact and continue with the production of steel office equipment, distribution of typewriters, adding machines, and radio equipment, and the manufacture of tools and dies. To exploit the valuable rights to manufacture the Willy Feiler adding machines and electric portable typewriters, management is already investigating the possibility of having these machines manufactured for it.

It is the recommendation of the Directors and management of your Company that the contract for the sale of the assets to Litton be approved. Because of the importance of this transaction, in the event that you are unable to attend the meeting, you are urgently requested to complete and return the enclosed proxy.

Yours very truly



Jack Tramiel
(President.)

Toronto, April 11th, 1966.

COMMODORE BUSINESS MACHINES (CANADA) LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

STATEMENT OF CONSOLIDATED EARNINGS (UNAUDITED),
FOR THE SIX MONTHS ENDED DECEMBER 31, 1965

Statement

Revenues		<u>\$4,440,712</u>
Gross Profit		1,295,682
Expenditures — Operations		
Selling Expenses, including Warehousing, etc.	\$358,814	
Managing Directors' Salaries	27,500	
Directors' Fees	250	
General and Administrative Expenses	328,209	
Exchange Adjustments	<u>(2,646)</u>	<u>712,127</u>
Net Profit from Operations before Financial Expenses, Depreciation and Income Taxes		<u>583,555</u>
Financial Expenses and Depreciation		
Interest on Debenture and Subordinated Notes	98,882	
Amortization of Cost of Issue of Debentures and Notes	7,416	
Other Financial Expenses	82,478	
Depreciation Charges	<u>175,729</u>	<u>364,505</u>
Net Profit (Loss) from Operations before Income Taxes		219,050
Deduct —		
Non-Operating Income and Expenses	10,401	
Non-Recurring Losses	191,383	
Income Taxes Payable	<u>58,499</u>	<u>260,283</u>
NET LOSS FOR PERIOD		<u>\$ (41,233)</u>

COMMODORE BUSINESS MACHINES (CANADA) LIMITED
AND ITS WHOLLY-OWNED SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEET - (UNAUDITED),
AND PRO-FORMA CONSOLIDATED BALANCE SHEET,
REFLECTING SALE OF WILLY FEILER ZAEHL - UND RECHENWERKE GMBH.
AS AT DECEMBER 31st, 1965.

ASSETS

		Pro-Forma
Current Assets		
Cash on Hand and on Deposit	\$ 101,568	\$ 146,534
Accounts and Notes Receivable (Net)	1,568,103	1,416,286
Discounts, Rebates and Deposits Receivable	21,190	21,190
Deposits & Loans Receivable - Other	141,105	75,209
Mortgage Receivable	65,026	65,026
Estimated Income Tax Refunds Receivable (Net)	70,915	304,781
Prepaid Expenses and Factory Supplies	13,608	11,358
Merchandise Inventories	<u>2,290,630</u>	<u>1,390,100</u>
	<u>4,272,145</u>	<u>3,430,484</u>
Investments and Advances		
Security Deposit	—	<u>250,000</u>
Fixed Assets		
Land & Buildings (including Appraisal)	469,987	170,659
Tools, Machinery and Equipment	1,967,282	580,935
Dies and Moulds (Less Amortization)	354,305	74,092
Automotive Equipment	53,877	38,309
Leasehold Improvements	<u>22,456</u>	<u>13,205</u>
	2,867,907	877,200
Less — Accumulated Depreciation	<u>782,677</u>	<u>278,980</u>
	<u>2,085,230</u>	<u>598,220</u>
Other Assets		
Manufacturing Rights, Developments, Patents, Trade Marks, Goodwill, etc. etc.	1,859,135	—
Reduced and Written-Down to the Nominal Value of:	—	1
	<u>1,859,135</u>	<u>1</u>
Total Assets	<u>\$8,216,510</u>	<u>\$4,278,705</u>

Balance Sheet

LIABILITIES

Current Liabilities

Accounts and Notes Payable	\$1,889,175	\$1,383,318
Bank Loan	701,291	479,596
Sales Taxes & Employees Deductions Payable	15,514	15,514
Loans Payable – Shareholders	9,890	—
Loans Payable – Other	549,405	—
Mortgages Payable – Current Portion	1,200	1,200
	<u>3,166,475</u>	<u>1,879,628</u>

Long Term Liabilities

Mortgage Payable	94,850	94,850
7% Convertible Debentures – Series “A”	724,500	—
7% Convertible Debentures – Series “B”	540,000	—
7% Convertible Debentures – Series “C”	600,000	—
6¾% Subordinated Notes – Series “A”	1,000,000	—
	<u>2,959,350</u>	<u>94,850</u>

Other Liabilities

Due to Employees’ Benefit Fund	77,321	—
Reserve for Employees’ Pension Plan	53,760	—
	<u>131,081</u>	<u>—</u>

Total Liabilities

<u>6,256,906</u>	<u>1,974,478</u>
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SHAREHOLDERS’ EQUITY

Capital Stock

Authorized

3,000,000 Common Shares without Par Value
200,000 Preference Shares with a Par Value of \$10 Each

Issued

992,681 5/20 Common Shares (Pro-Forma 1,042,681 5/20)	1,277,892	1,352,892
100,000 Preference Shares	<u>1,000,000</u>	<u>—</u>
	2,277,892	1,352,892

Surplus

Earned Surplus (Deficit)	(626,617)	643,006
Appraisal Surplus (Land)	63,161	63,161
Contributed Surplus	245,168	245,168

Total Shareholders’ Equity

<u>1,959,604</u>	<u>2,304,227</u>
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Total Liabilities and Shareholders’ Equity

<u>\$8,216,510</u>	<u>\$4,278,705</u>
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Commodore Business Machines (Canada) Limited